

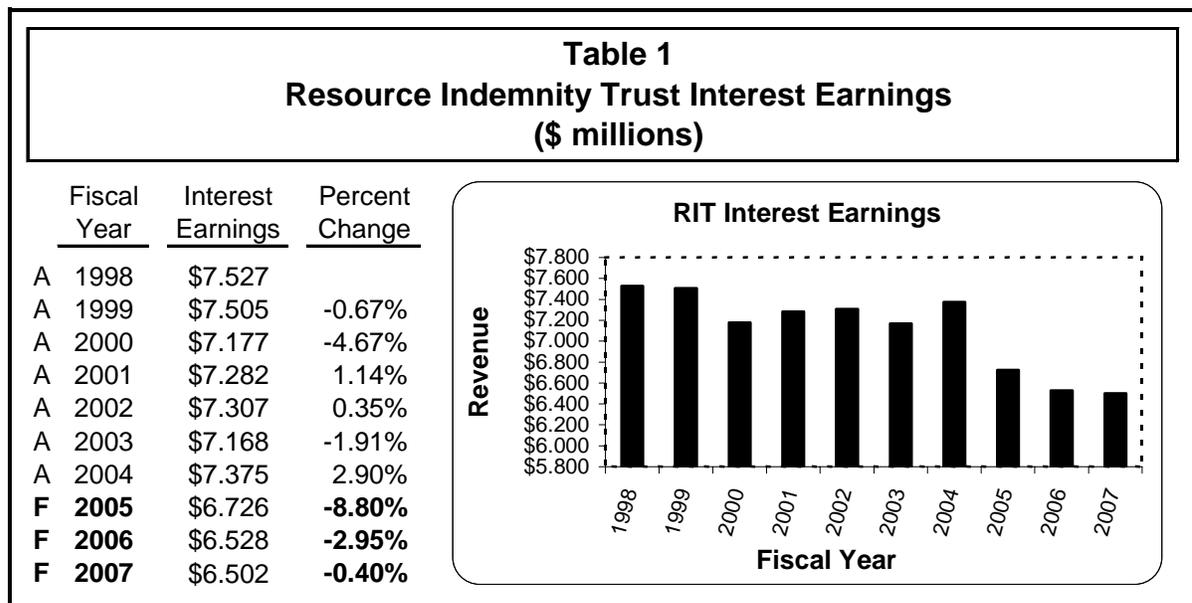
## RESOURCE INDEMNITY TRUST INTEREST

### Revenue Description

Chapter 38 of Title 15, MCA, created a resource indemnity trust fund to indemnify the citizens of Montana for depletion of the state's resource base and for environmental damage from mineral development. The trust fund balance reached \$100 million in December 2002. Deposits ceased at that point, and the balance has remained at \$100 million. Income from the trust fund is used to fund a variety of environmental and natural resource programs.

### Historical and Projected Revenue

Table 1 shows actual interest earning for FY 2001 through FY 2004 and projected interest earnings for FY 2005 through FY 2007.



The variation from year to year reflects growth in the trust fund balance through December 2002 and fluctuating interest rates. Yield on the trust fund ranged from a high of \$7.527 million in FY 1998 to a low of \$7.168 million in FY 2003.

### Forecast Methodology and Projection Calculation

There are three steps to forecasting interest revenue from the resource indemnity trust fund. First, the balance of the trust fund must be projected. Second, the interest to be earned on that balance is projected. Third, the interest income is allocated to the various accounts that receive a share.

## Trust Fund Balances

Trust fund balances are held in the Short Term Investment Pool (STIP) and the Trust Funds Bond Pool (TFBP). The Montana Board of Investments manages the pools. The balances held in STIP are invested in the money market; the balances held in TFBP are generally invested in long-term commercial bonds and mortgage backed securities. The Short Term Investment Pool offers greater liquidity but a lower expected return than the Trust Funds Bond Pool.

Interest income for the resource indemnity trust fund is the sum of the interest income from the STIP balances and the TFBP balances. Interest income from the STIP balances is paid on the actual value of funds invested in the pool. Interest income from the TFBP balances is paid on the par value of funds invested in the bond pool. The Trust Funds Bond Pool is a mutual fund with a par value of \$100 per share. This was the initial buy-in value of the pool at its inception on October 1, 1995. The current price of a share in the pool will vary depending upon the underlying value of the pool. If the price of a share is \$98, the par value of a \$1,000 investment is  $\$1,000/0.98 = \$1020.41$ . The income of the bond pool is distributed on a par value basis, with each investor receiving distributions in proportion to the par value of their investment in the pool.

Table 2 shows STIP, TFBP, and total actual balances from FY 2001 through FY 2004 and forecast balances for FY 2005 through FY 2007.

<b>Table 2</b> <b>Resource Indemnity Trust Balance</b> <b>(\$ millions)</b>			
Fiscal Year	STIP Balance	TFBP Balance	Total Balance
A 2001	\$0.938	\$97.630	\$98.568
A 2002	\$0.827	\$99.837	\$100.663
A 2003	\$0.258	\$100.000	\$100.258
A 2004	\$0.001	\$100.000	\$100.001
<b>F 2005</b>	<b>\$0.001</b>	<b>\$100.000</b>	<b>\$100.001</b>
<b>F 2006</b>	<b>\$0.001</b>	<b>\$100.000</b>	<b>\$100.001</b>
<b>F 2007</b>	<b>\$0.001</b>	<b>\$100.000</b>	<b>\$100.001</b>

In August of FY 2005, the proportion of the total balance held in STIP was about 0.0024%. The contribution of STIP income to total income in the resource indemnity trust fund is negligible. The proportion held in STIP is very small because of very low returns in the money market. This trend is expected to continue through FY 2007. Thus the projected balance held in the STIP is projected to remain very small.

Table 3 below shows the actual and estimated yield and income for the different balances from FY 2001 to FY 2007.

<b>Table 3</b> <b>Investment Pool Balances, Yields and Income</b> <b>(\$ millions)</b>								
FY	STIP Balance	STIP Yield	STIP Income	TFBP Balance	TFBP Par Balance	TFBP Yield	TFBP Income	Total Income
A 2001	\$0.938	8.10%	\$0.076	\$97.630	\$102.318	7.04%	\$7.206	\$7.282
A 2002	\$0.827	2.56%	\$0.021	\$99.837	\$104.572	6.97%	\$7.286	\$7.307
A 2003	\$0.258	2.48%	\$0.006	\$100.000	\$104.735	6.84%	\$7.161	\$7.168
A 2004	\$0.001	1.11%	\$0.000	\$100.000	\$104.735	7.04%	\$7.375	\$7.375
<b>F 2005</b>	<b>\$0.001</b>	<b>1.93%</b>	<b>\$0.000</b>	<b>\$100.000</b>	<b>\$104.735</b>	<b>6.42%</b>	<b>\$6.726</b>	<b>\$6.726</b>
<b>F 2006</b>	<b>\$0.001</b>	<b>3.28%</b>	<b>\$0.000</b>	<b>\$100.000</b>	<b>\$104.735</b>	<b>6.23%</b>	<b>\$6.528</b>	<b>\$6.528</b>
<b>F 2007</b>	<b>\$0.001</b>	<b>3.68%</b>	<b>\$0.000</b>	<b>\$100.000</b>	<b>\$104.735</b>	<b>6.21%</b>	<b>\$6.502</b>	<b>\$6.502</b>

Allocation of Resource Indemnity Trust Fund Income

Table 4 shows the allocation of interest income on the Resource Indemnity Trust Fund for FY 2003 through FY 2007.

<b>Table 4</b> <b>Resource Indemnity Trust Interest Allocation</b> <b>(\$ millions)</b>					
Account or Program	FY2003	FY2004	FY2005	FY2006	FY2007
MSU-Northern	\$0.240	\$0.240	\$0.240	\$0.240	\$0.240
Renewable Resource Grants & Loans	\$2.785	\$2.653	\$2.672	\$2.379	\$2.589
Reclamation & Development Grants	\$2.585	\$2.352	\$2.386	\$1.942	\$2.187
Groundwater Assessment	\$0.300	\$0.300	\$0.300	\$0.300	\$0.300
Environmental Contingency	\$0.000	\$0.175	\$0.000	\$0.175	\$0.000
Oil & Gas Damage Mitigation	\$0.000	\$0.050	\$0.000	\$0.050	\$0.000
Water Storage	\$0.000	\$0.500	\$0.000	\$0.500	\$0.000
Trout Habitat Enhancement	\$0.350	\$0.350	\$0.350	\$0.500	\$0.500
Hazardous Waste/CERCLA	\$0.677	\$0.563	\$0.580	\$0.328	\$0.510
Environmental Quality Protection	\$0.231	\$0.192	\$0.198	\$0.114	\$0.177
<b>Total RIT Interest Earnings</b>	<b>\$7.168</b>	<b>\$7.375</b>	<b>\$6.726</b>	<b>\$6.528</b>	<b>\$6.502</b>

At the beginning of each biennium, \$175,000 is allocated to the environmental contingency account created by 75-1-1011, MCA; \$50,000 is allocated to the oil and gas production damage mitigation account created by 82-11-161, MCA; and \$500,000 is allocated to the water storage account created by 85-1-631, MCA.

At the beginning of each fiscal year, \$240,000 is allocated to the environmental science and water quality program at MSU-Northern; \$2 million is allocated to the

renewable resource grant and loan program created by 85-1-604, MCA for grants; \$1.5 million is allocated to the reclamation and development grant program created by 90-2-1104, MCA; and \$300,000 is allocated to the groundwater assessment account created by 85-2-905, MCA. Beginning in FY 2002, \$500,000 is allocated each fiscal year to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program created by 87-1-283, MCA, with revenue reductions occurring in the 2003 and 2005 biennia due to special session actions.

Remaining funds are allocated 30% to the renewable resource grant and loan program; 26% to the hazardous waste/CERCLA account created by 75-10-621, MCA; 35% to the reclamation and development grant program; and 9% to the environmental quality protection fund created by 75-10-704, MCA.